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OWLETT & LEWIS, P.C.



Attorneys at Law

RECORDATION NO.

25517

FILED

One Charles Street

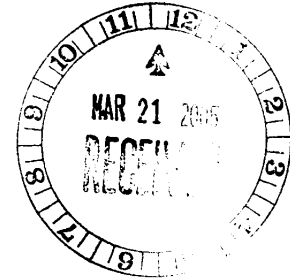
P.O. Box 878, Wellsboro, PA 16901

www.OwlettLewis.com

MAR 24 '05 11-52 AM

SURFACE TRANSPORTATION BOARD March 14, 2005

Secretary  
Surface Transportation Board  
Washington, DC 20423



In Re: Security Interest in Railroad Cars

Dear Secretary:

Please be advised that I represent Citizens & Northern Bank ("C&N"), a Pennsylvania banking institution with an address of 90-92 Main Street, Wellsboro, PA 16901.

I have enclosed one original and two certified true copies of the document described below, to be recorded pursuant to Section 11301 of Title 49 of the US Code.

This document is a "Security Agreement," a primary document dated March 11, 2005.

The names and addresses of the parties to the document are as follows:

Debtor: Tioga Central Railroad, Inc.  
P.O. Box 269  
Wellsboro, PA 16901

Secured Party: Citizens & Northern Bank  
90-92 Main Street  
Wellsboro, PA 16901

A description of the equipment covered by the document follows: all railroad cars now owned or hereafter acquired by Debtor, including but not limited to those identified by Serial Number and listed on Exhibit A, which is attached to the Security Agreement.

A fee of \$32.00 is enclosed. Please return the original and any extra copies not needed by the Board for recordation to Brian S. Duff, Esquire, Owlett & Lewis, P.C., One Charles Street, Wellsboro, PA 16901.

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Secretary, Surface Transportation Board  
March 14, 2005  
Page 2 of 2

A short summary of the document to appear in the index follows: Security Agreement between Tioga Central Railroad, Inc., P.O. Box 269, Wellsboro, PA 16901 and Citizens & Northern Bank, 90-92 Main Street, Wellsboro, PA 16901, dated March 11, 2005, covering all railroad cars now owned or hereafter acquired by Debtor, including but not limited to those listed on the attached Exhibit A.

Very truly yours,

OWLETT & LEWIS, P.C.

By:   
Brian S. Duff

Enclosures

RECORDATION NO. 25517 FILED

MAR 24 '05 11:52 AM

*SECURITY AGREEMENT*

SURFACE TRANSPORTATION BOARD

This Security Agreement ("Security Agreement") is made the 11<sup>th</sup> day of March, 2005, between TIOGA CENTRAL RAILROAD, INC. a Pennsylvania corporation with an address of P.O. Box 269, Wellsboro, PA 16901 ("Debtor") and CITIZENS & NORTHERN BANK, a Pennsylvania banking institution with an address of 90-92 Main Street, Wellsboro, PA 16901 ("Secured Party").

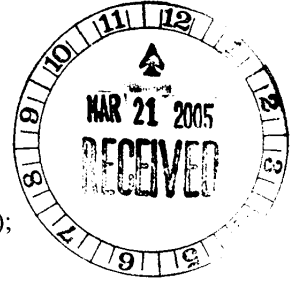
This Security Agreement is entered into with respect to a certain loan made by Secured Party to Debtor in the principal amount One Hundred Thirty Thousand Dollars (\$130,000.00), evidenced by a Term Note dated March 11, 2005 in the principal amount of One Hundred Thousand Dollars (\$100,000.00) (the "Note") and a Revolving Demand Note dated March 11, 2005 in the principal amount of Thirty Thousand Dollars (\$30,000.00) (the "Line of Credit");

Secured Party and Debtor agree as follows:

1. Definitions.

1.1 **"Collateral."** The Collateral shall consist of all of the personal property of Debtor, wherever located, and now owned or hereafter acquired, including:

- a) All railroad cars now owned or hereafter acquired by Debtor, including but not limited to those railroad cars specifically identified on the attached Exhibit A;
- b) Accounts (including health-care insurance receivables);
- c) Chattel Paper;
- d) Inventory;
- e) Equipment;
- f) Instruments;
- g) Investment Property;
- h) Rents;
- i) Documents;



- j) Deposit accounts;
- k) Letter-of-Credit rights;
- l) General intangibles (including payment intangibles);
- m) Supporting obligations;
- n) To the extent not listed above as original collateral, proceeds and products of the foregoing.

1.2 **“Obligations.”** This Security Agreement secures the following:

- a) Debtor’s obligations under the Note;
- b) Debtor’s obligations under the Line of Credit;
- c) All of Debtor’s other present and future obligations to Secured Party;
- d) The repayment of (1) any amounts that Secured Party may advance or spend for the maintenance or preservation of the Collateral and (2) any other expenditures that Secured Party may make under the provisions of this Security Agreement or for the benefit of Debtor;
- e) All amounts owed under any modifications, renewals or extensions of any of the foregoing obligations;
- f) All other amounts now or in the future owed by Debtor to Secured Party; and
- g) Any of the foregoing that arise after the filing of a Petition by or against Debtor under the Bankruptcy Code, even if the obligations due do not accrue because of the automatic stay under Bankruptcy Code §362 or otherwise.

1.3 **“UCC”** Any term used in the Uniform Commercial Code (“UCC”) and not defined in this Security Agreement has the meaning given to the term in the UCC.

2. **Grant of Security Interest.** Debtor grants a security interest in the Collateral to Secured Party to secure the payment or performance of the Obligations.

3. **Perfection of Security Interests.**

3.1 **Filing of Financing Statements.** Debtor authorizes Secured Party to file any and all necessary financing statements in order to properly perfect Secured Party’s security interest in the Collateral (the “Financing Statements”), and any all necessary continuation statements and amendments thereto.

3.2 Possession.

- a) Debtor shall have possession of the Collateral, except where expressly otherwise provided in this Security Agreement or where Secured Party chooses to perfect its security interest by possession in addition to the filing of a financing statement.
- b) Where Collateral is in the possession of a third party, Debtor will join with Secured Party in notifying the third party of Secured Party's security interest and obtaining an acknowledgement from the third party that it is holding the collateral for the benefit of Secured Party.

3.3 Control. Debtor will cooperate with Secured Party in obtaining control with respect to Collateral consisting of:

- a) Deposit Accounts; and
- b) Investment Property;
- c) Letter-of-credit rights; and
- d) Electronic chattel paper;

3.4 Marking of Chattel Paper. Debtor will not create any Chattel Paper without placing a legend on the Chattel Paper acceptable to Secured Party indicating that Secured Party has a security interest in the Chattel Paper.

4. Post-Closing Covenants and Rights Concerning the Collateral.

- 4.1 Inspection. Any party to this Security Agreement may inspect any Collateral in the other party's possession, at any time upon reasonable notice.
- 4.2 Personal Property. The Collateral shall remain personal property at all times. Debtor shall not affix any of the Collateral to any real property in any manner which would change its nature from that of personal property to real property or to a fixture.
- 4.3 Secured Party's Collection Rights. Secured Party shall have the right at any time to enforce Debtor's rights against the account debtors and obligors.
- 4.4 Limitations on Obligations Concerning Maintenance of Collateral.
  - a) *Risk of Loss.* Debtor has the risk of loss of the Collateral.
  - b) *No Collection Obligation.* Secured Party has no duty to collect any income accruing on the Collateral or to preserve any rights relating to the Collateral.

- 4.5 No Dispositions of Collateral. Secured Party does not authorize, and Debtor agrees not to:
- a) Make any bulk sales or leases of any of the Collateral;
  - b) License any of the Collateral; or
  - c) Grant any other security interest in any of the Collateral.
- 4.6 Purchase Money Security Interests. To the extent Debtor uses the proceeds of the Note or Line of Credit to purchase Collateral, Debtor's repayment of the Note and/or Line of Credit shall apply on a "first-in-first-out" basis so that the portion of the loan used to purchase a particular item of Collateral shall be paid in the chronological order the Debtor purchased the Collateral.
5. Debtor's Representations and Warranties.
- 5.1 Title to and transfer of Collateral. It has rights in or the power to transfer the Collateral and its title to the Collateral is free of all adverse claims, liens, security interests and restrictions on transfer or pledge except as created by this Security Agreement.
- 5.2 Location of Collateral. All collateral consisting of goods is located solely in the Commonwealth of Pennsylvania.
- 5.3 Location and Name of Debtor.
- a) Debtor's principal place of business is located in the Commonwealth of Pennsylvania;
  - b) Debtor's exact legal name is as set forth in the first paragraph of this Security Agreement.
6. Debtor's Covenants. Until the Obligations are paid in full, Debtor agrees that it will:
- a) Preserve its status as a Pennsylvania corporation and will not, in one transaction or a series of related transactions, merge into or consolidate with any other entity, or sell all or substantially all of its assets;
  - b) Not change the state where it is located; and
  - c) Not change its legal name without providing Secured Party with 30 days' prior written notice.
7. Events of Default. The occurrence of any of the following shall, at the option of Secured Party, be an Event of Default:
- 7.1 Any default, Event of Default (as defined) by Debtor under the Note, the Line of Credit or any of the other Obligations;

- 7.2 Debtor's failure to comply with any of the provisions of, or the incorrectness of any representation or warranty contained in, this Security Agreement, the Note, the Line of Credit, or in any of the other Obligations;
  - 7.3 Transfer or disposition of any of the Collateral, except as expressly permitted by this Security Agreement;
  - 7.4 Attachment, execution or levy on any of the Collateral;
  - 7.5 Debtor voluntarily or involuntarily becoming subject to any proceeding under (a) the Bankruptcy Code or (b) any similar remedy under state statutory or common law;
  - 7.6 Debtor shall fail to comply with, or become subject to any administrative or judicial proceeding under any federal, state or local (a) hazardous waste or environmental law, (b) asset forfeiture or similar law which can result in the forfeiture of property, or (c) other law, where noncompliance may have any significant effect on the Collateral; or
  - 7.7 Secured Party shall receive at any time following the Closing a Secretary of State report indicating that Secured Party's security interest is not prior to all other security interests or other interests reflected in the report.
8. Default Costs.
- 8.1 Should an Event of Default occur, Debtor will pay to Secured Party all costs reasonably incurred by the Secured Party for the purpose of enforcing its rights hereunder, including:
    - a) Costs of foreclosure;
    - b) Costs of obtaining money damages; and
    - c) A reasonable fee for the services of attorneys employed by Secured Party for any purpose related to this Security Agreement or the Obligations, including consultation, drafting documents, sending notices or instituting, prosecuting or defending litigation or arbitration.
9. Remedies Upon Default.
- 9.1 General. Upon any Event of Default, Secured Party may pursue any remedy available at law (including those available under the provisions of the UCC), or in equity to collect, enforce or satisfy any Obligations then owing, whether by acceleration or otherwise.

- 9.2 Conformer Remedies. Upon any Event of Default, Secured Party shall have the right to pursue any of the following remedies separately, successively or simultaneously:
- a) File suit and obtain judgment and, in conjunction with any action, Secured Party may seek any ancillary remedies provided by law, including levy of attachment and garnishment.
  - b) Take possession of any Collateral if not already in its possession without demand and without legal process. Upon Secured Party's demand, Debtor will assemble and make the Collateral available to Secured Party as it directs. Debtor grants to Secured Party the right, for this purpose, to enter into or on any premises where Collateral may be located.
  - c) Without taking possession, sell, lease or otherwise dispose of the Collateral at public or private sale in accordance with the UCC.

10. Foreclosure Procedures.

- 10.1 No Waiver. No delay or omission by Secured Party to exercise any right or remedy accruing upon any Event of Default shall: (a) impair any right or remedy, (b) waive any default or operate as an acquiescence to the Event of Default, or (c) affect any subsequent default of the same or of a different nature.
- 10.2 Notices. Secured Party shall give Debtor such notice of any private or public sale as may be required by the UCC.
- 10.3 Condition of Collateral. Secured Party has no obligation to clean up or otherwise prepare the Collateral for sale.
- 10.4 No Obligation to Pursue Others. Secured Party has no obligation to attempt to satisfy the Obligations by collecting them from any other person liable for them and Secured Party may release, modify or waive any collateral provided by any other person to secure any of the Obligations, all without affecting Secured Party's rights against Debtor. Debtor waives any right it may have to require Secured Party to pursue any third person for any of the Obligations.
- 10.5 Compliance With Other Laws. Secured Party may comply with any applicable state or federal law requirements in connection with a disposition of the Collateral and compliance will not be



considered to adversely affect the commercial reasonableness of any sale of the Collateral.

- 10.6 Warranties. Secured Party may sell the Collateral without giving any warranties as to the Collateral. Secured Party may specifically disclaim any warranties of title or the like. This procedure will not be considered to adversely affect the commercial reasonableness of any sale of the Collateral.
- 10.7 Sales on Credit. If Secured Party sells any of the Collateral upon credit, Debtor will be credited only with payments actually made by the purchaser, received by Secured Party and applied to the indebtedness of the Purchaser. In the event the purchaser fails to pay for the Collateral, Secured Party may resell the Collateral and Debtor shall be credited with the proceeds of the sale.
- 10.8 Purchases by Secured Party. In the event Secured Party purchases any of the Collateral being sold, Secured Party may pay for the Collateral by crediting some or all of the Obligations of the Debtor.
- 10.9 No Marshaling. Secured Party has no obligation to marshal any assets in favor of Debtor, or against or in payment of:
  - a) The Note;
  - b) The Line of Credit;
  - c) Any of the other Obligations; or
  - d) Any other obligation owed to Secured Party by Debtor or any other person.

11. Miscellaneous.

11.1 Assignment.

- a) Binds Assignees. This Security Agreement shall bind and shall inure to the benefit of the successors and assigns of Secured Party and shall bind all persons who become bound as a debtor to this Security Agreement.
- b) No Assignments by Debtor. Secured Party does not consent to any assignment by Debtor except as expressly provided in this Security Agreement.
- c) Secured Party Assignments. Secured Party may assign its rights and interests under this Security Agreement. If an assignment is made, Debtor shall render performance under this Security Agreement to the Assignee. Debtor waives and will not assert against any assignee any claims, defenses or set-offs which Debtor could assert against Secured Party except defenses which cannot be waived.

- 11.2 Severability. Should any provision of this Security Agreement be found to be void, invalid or unenforceable by a Court or panel of arbitrators of competent jurisdiction, that finding shall only affect the provisions found to be void, invalid or unenforceable and shall not affect the remaining provisions of this Security Agreement.
- 11.3 Notices. Any notices required by this Security Agreement shall be deemed to be delivered when a record has been (a) deposited in any United States postal box if postage is prepaid, and the notice is properly addressed to the intended recipient, (b) received by telecopy, (c) received through the Internet, and (d) when personally delivered.
- 11.4 Headings. Section headings used in this Security Agreement are for convenience only. They are not a part of this Security Agreement and shall not be used in construing it.
- 11.5 Governing Law. This Security Agreement is being executed and delivered and is intended to be performed in the State of Pennsylvania and shall be construed and enforced in accordance with the laws of the State of Pennsylvania, except to the extent that the UCC provides for the application of the law of a different state.
- 11.6 Rules of Construction.
- a) No reference to "proceeds" in this Security Agreement authorizes any sale, transfer, or other disposition of the Collateral by the Debtor.
  - b) "Includes" and "including" are not limiting.
  - c) "Or" is not exclusive.
  - d) "All" includes "any" and "any" includes "all."
- 11.7 Integration and Modifications.
- a) This Security Agreement is the entire agreement of the Debtor and Secured Party concerning its subject matter.
  - b) Any modification to this Security Agreement must be made in writing and signed by the party adversely affected.
- 11.8 Waiver. Any party to this Security Agreement may waive the enforcement of any provision to the extent the provision is for its benefit.
- 11.9 Further Assistance. Debtor agrees to execute any further documents, and to take any further actions, reasonably requested by Secured Party to evidence or perfect the security interest granted herein to



## **Exhibit A**

■ Five (5) Locomotives currently owned by Tioga Central Railroad, Inc.:

- 1) No. 14 S-2 Alco Diesel Electric Serial #73924;
- 2) No. 47 RS-1 Alco Diesel Electric Serial #74315;
- 3) No. 62 RS-1 Alco Diesel Electric Serial #77474;
- 4) No. 240 RS-1 Alco Diesel Electric Serial #73569;
- 5) No. 506 RS-3 Alco Diesel Electric

■ Ten (10) Passenger Cars currently owned by Tioga Central Railroad, Inc.:

- 1) Observation Coach #54;
- 2) Passenger Coach #212;
- 3) Passenger Coach #233;
- 4) Passenger Coach #263;
- 5) Passenger Coach #285;
- 6) Open Air Coach #300;
- 7) Diner with Kitchen #370;
- 8) Diner #372;
- 9) Baggage/Generator #454;
- 10) Observation Lounge #500